United States Government Accountability Office

GAO

Report to Congressional Requesters

June 2006

FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004

GAO

Accountability * Integrity * Reliability

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GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-617, a report to congressional requesters

Why GAO Did This Study

During a hearing in 2004 on the financial services industry, congressional members and witnesses expressed concern about the industry's lack of workforce diversity, particularly in key management-level positions. Witnesses stated that financial services firms (e.g., banks and securities firms) had not made sufficient progress in recruiting and promoting minority and women candidates for management-level positions. Concerns were also raised about the ability of minority-owned businesses to raise capital (i.e., debt or equity capital).

GAO was asked to provide an overview on the status of diversity in the financial services industry. This report discusses (1) what available data show regarding diversity at the management level in the financial services industry from 1993 through 2004, (2) the types of initiatives that financial firms and related organizations have taken to promote workforce diversity and the challenges involved, and (3) the ability of minority- and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have taken to make capital available to these businesses.

GAO makes no recommendations in this report.

www.gao.gov/cgi-bin/getrpt?GAO-06-617.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice M. Williams at (202) 512-5837 or williamso@gao.gov.

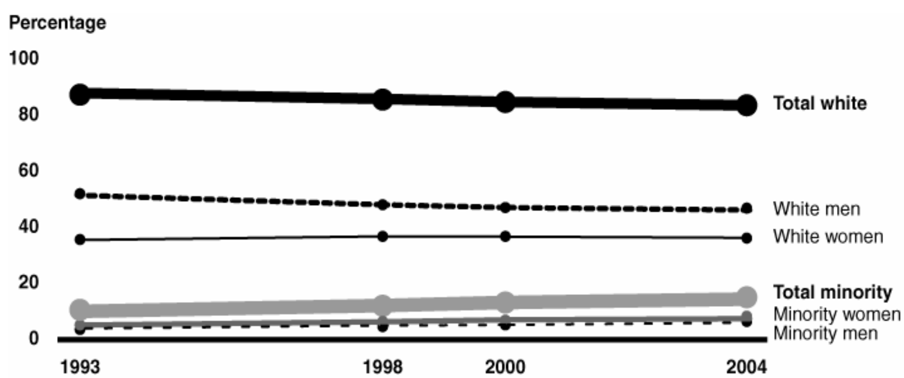
What GAO Found

Between 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but increases in representation varied by racial/ethnic minority group. During that period, Equal Employment Opportunity Commission (EEOC) data show that management-level representation by minority men and women increased from 11.1 percent to 15.5 percent (see figure below). Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. The EEOC data also show that representation by white women remained constant at slightly more than one-third whereas representation by white men declined from 52.2 percent to 47.2 percent.

Financial services firms and trade groups GAO contacted stated that they have initiated programs to increase workforce diversity, including in management-level positions, but these initiatives face challenges. The programs include developing scholarships and internships, establishing programs to foster employee retention and development, and linking managers' compensation with their performance in promoting a diverse workforce. However, firm officials said that they still face challenges in recruiting and retaining minority candidates. Some officials also said that gaining employees' "buy-in" to diversity programs was a challenge, particularly among middle managers who were often responsible for implementing key aspects of such programs.

Research reports suggest that minority- and women-owned businesses have generally faced difficulties in obtaining access to capital for several reasons such as these businesses may be concentrated in service industries and lack assets to pledge as collateral. Other studies suggest that lenders may discriminate in providing credit, but assessing lending discrimination may be complicated by limited data availability. However, some financial institutions, primarily commercial banks, said that they have developed strategies to serve minority- and women-owned businesses. These strategies include marketing existing financial products specifically to minority and women business owners.

Workforce Representation in the Financial Services Industry at the Management Level (1993, 1998, 2000, and 2004)



Source: GAO analysis of EEOC data.

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Abbreviations

AACSB	Association to Advance Collegiate Schools of Business
ABA	American Bankers Association
ACS	American Community Survey
AICPA	American Institute of Certified Public Accountants
CPA	certified public accountant
ECOA	Equal Credit Opportunity Act
EEO-1 data	Employer Information Report data
EEOC	Equal Employment Opportunity Commission
GMAC®	Graduate Management Admission Council®
HMDA	Home Mortgage Disclosure Act
IIABA	Independent Insurance Agents and Brokers of America
MBA	Masters of Business Administration
NAICS	North American Industry Classification System
PUMS	Public Use Microdata Sample
SBA	Small Business Administration
SBO	Survey of Business Owners
SIA	Securities Industry Association
SIC	Standard Industrial Classification

United States Government Accountability Office
Washington, DC 20548

June 1, 2006

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

The Honorable Sue W. Kelly
Chairwoman
The Honorable Luis V. Gutierrez
Ranking Minority Member
Subcommittee on Oversight and Investigations
Committee on Financial Services
House of Representatives

The Honorable David Scott
House of Representatives

At a July 2004 hearing before the Subcommittee on Oversight and Investigations of the House Committee on Financial Services, some members and witnesses expressed concern about the financial services industry's lack of workforce diversity, particularly in key management-level positions.[1] Witnesses stated that financial services firms (e.g., banks and securities firms) had not made sufficient progress in recruiting minority and women candidates for management-level positions. Concerns were also raised about the ability of minority-owned businesses to raise debt and equity capital.

This report follows up on the issues raised in the subcommittee hearing and responds to your February 2005 request that we provide an overview on the status of diversity in the financial services industry. Specifically, our objectives were to discuss (1) what the available data show regarding diversity at the management level in the financial services industry from 1993 through 2004, (2) the types of initiatives that the

[1]*Diversity In the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, Hearing Before the Subcommittee On Oversight and Investigations of the House Committee on Financial Services, 108th Cong. (2004).

financial services industry and related organizations have taken to promote workforce diversity and the challenges involved, and (3) the ability of minority- and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have taken to make capital available to these businesses. You also asked that we include information about the accounting industry, which we address separately in this report. In an earlier report, we defined workforce diversity as ways in which people in a workforce are similar and different from one another including background, education, and language skills.[2] For the purposes of this report, we focused the diversity discussion on changes in management-level representation over time by racial/ethnic minority groups (for both women and men), including African-Americans, Asian/Pacific Islanders (Asians), Hispanics or Latinos (Hispanics), and American Indians/Alaskan Natives (American Indians). We also discussed changes in management-level representation by whites (both women and men) over time. Finally, we defined raising capital as debt or equity capital obtained in conventional financial markets, such as from commercial banks or venture capital funds.

To address objective one, we primarily analyzed the Equal Employment Opportunity Commission's (EEOC) Employer Information Report (EEO-1) data for the financial services industry for employers with 100 or more employees for the years 1993, 1998, 2000, and 2004.[3] The EEO-1 data provide information on racial/ethnic and gender representation for various occupations within a broad range of industries, including financial services. We used the EEO-1 "officials and managers" job category as the basis for our discussion of management-level diversity within the financial services industry, as well as for its various sectors, such as banking and securities firms. EEOC defines the job category of "officials and managers" as occupations requiring administrative and managerial personnel, who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operation. First-line supervisors who engage in the same activities as the employees they supervise are reported in the same job category as the

[2] GAO, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90 (Washington, D.C.: Jan. 14, 2005).

[3] Generally, private employers with fewer than 100 employees and certain federal contractors who employ fewer than 50 employees are not required to submit EEO-1 reports to EEOC. Although the EEO-1 data do not include these smaller firms, the data do allow for the characterization of workforce diversity for firms with 100 or more employees due to EEOC's annual reporting requirement.

employees they supervise rather than in the “officials and managers” category. To address objectives two and three, we collected publicly available information and interviewed officials from a variety of financial services firms, including commercial banks, securities firms, and private equity/venture capital organizations. We also interviewed representatives from industry trade organizations, such as the American Bankers Association (ABA); the Securities Industry Association (SIA); Mortgage Bankers Association (Association); and the Independent Insurance Agents and Brokers of America (IIABA); federal agencies, including EEOC; the U.S. Department of Commerce’s Minority Business Development Administration (MBDA); the Small Business Administration (SBA); and federal bank regulators; academics; and organizations that represent minority- and women-owned businesses, such as the U.S. Hispanic Chamber of Commerce and the National Association of Women Business Owners. We also reviewed available government and industry studies that address workforce diversity in the financial services industry and the ability of minority- and women-owned businesses to obtain access to capital.

We conducted our work from July 2005 to May 2006 in Washington, D.C., and New York City in accordance with generally accepted government auditing standards. Appendix I describes the objectives, scope, and methodology of our review in more detail. At your request, appendix II discusses overall statistics on workforce diversity in the financial services industry, and appendix III discusses workforce diversity in the accounting industry.

Results in Brief

From 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others. During that period, EEO-1 data show that management-level representation by minority women and men overall increased from 11.1 percent of all industry management-level positions to 15.5 percent. Specifically, African-Americans increased their management-level representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. Representation by white women remained constant at slightly more than one-third whereas representation by white men declined from 52.2 percent to 47.2 percent (overall white management-level representation declined from 88.9 percent in 1993 to 84.5 percent in 2004). Additionally, the EEO-1 data indicate that, within the financial services industry, certain sectors have a somewhat more diverse management-level workforce than others. For example, the EEO-1 data show that depository institutions, such as commercial banks, and insurance companies generally have a higher degree of representation by minorities or white women at the management level than securities firms.

Although financial services firms and trade groups have initiated programs to increase workforce diversity, including in management-level positions, these initiatives face challenges that may help explain why overall diversity at the management level did not change substantially from 1993 through 2004. According to officials from financial services firms we spoke with, diversity is an important goal, and their companies' top leadership is committed to implementing programs to recruit and retain minority and women candidates. For example, to develop a pool of minority candidates, financial services firms have established scholarship and internship programs or partnered with groups that represent minority professionals, such as the National Black Master of Business Administration Association. Additionally, officials from a few firms told us that in the last few years they have been linking managers' compensation with their performance in promoting workforce diversity. Moreover, some firms have developed performance indicators (e.g., representation by minorities and women in key positions) to measure their progress in achieving workforce diversity. However, financial services firm officials said that they still face challenges in recruiting and retaining minority candidates. Some firm officials also said that gaining employees' "buy-in" to diversity programs was a challenge, particularly among middle managers who were often responsible for implementing key aspects of such programs.

Research reports and our discussions with financial services firms and relevant trade groups suggest that minority- and women-owned businesses generally have difficulty obtaining access to capital in conventional financial markets for several reasons. A 2004 report by the MBDA stated that minority-owned businesses may have difficulty in obtaining capital because they are often concentrated in service industries and lack sufficient assets to pledge as collateral to obtain financing or because many such businesses lack an established record of creditworthiness.[4] Other studies suggest that lenders may discriminate in deciding whether to make loans to minority-owned businesses. However, assessing lending discrimination against minority- and women-owned businesses may be

[4]U.S. Department of Commerce, Minority Business Development Agency, "Expanding Financing Opportunities for Minority Businesses" (2004).

complicated by limited data availability. In particular, the Federal Reserve's Regulation B, which implements the Equal Credit Opportunity Act, prohibits financial institutions from requiring information on race and gender from applicants for nonmortage credit products.[5] Federal financial regulators and others have stated that Regulation B limits their capacity to monitor potential business lending discrimination. While minority- and women-owned businesses may have faced difficulties in obtaining capital from conventional sources over the years, some financial institutions, primarily commercial banks, said that they have developed strategies to serve minority- and women-owned businesses. These strategies include marketing financial products specifically to minority- and women-owned businesses, although it does not appear that these financial institutions actually changed their general underwriting standards for such businesses. In addition, some financial institutions have established programs to provide technical assistance (e.g., assistance in developing business plans) to minority-owned and women-owned businesses so that these firms are better positioned to obtain capital from conventional sources.

This report does not contain recommendations. We requested comments on a draft of this report from the Chair, U.S. Equal Employment Opportunity Commission (EEOC). EEOC provided technical comments, which we incorporated as appropriate. We also obtained comments from officials at selected industry trade associations, federal agencies, and organizations that examine access to capital issues on selected excerpts of a draft of this report. We have incorporated their comments as appropriate.

Background

This section provides brief descriptions of the financial services industry and its component sectors, the changing demographic characteristics of the United States, and diversity management.

Overview of the Financial Services Industry

The financial services industry plays a key role in the U.S. economy by, among other things, providing vehicles, such as insured deposits,

[5]The Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691-1691f, makes it unlawful for a creditor to discriminate against an applicant in any aspect of a credit transaction on the basis of the applicant's national origin, religion, sex, color, race, age (provided the applicant has the capacity to contract). Racial and gender information can be collected in two very limited circumstances, neither of which results in publicly available data regarding the race/ethnicity or gender of the bank's nonmortgage credit applicants.

providing credit to individuals and businesses, and providing protection against certain financial risks. We defined the financial services industry to include the following sectors:

- depository credit institutions, which is the largest sector, include commercial banks, thrifts (savings and loan associations and savings banks), and credit unions;
- holdings and trusts, which include investment trusts, investment companies, and holding companies;
- nondepository credit institutions, which extend credit in the form of loans, but are not engaged in deposit banking, include federally sponsored credit agencies, personal credit institutions, and mortgage bankers and brokers;
- the securities industry, which is made up of a variety of firms and organizations (e.g., broker-dealers) that bring together buyers and sellers of securities and commodities, manage investments, and offer financial advice; and
- the insurance industry, including carriers and insurance agents, which provides protection against financial risks to policyholders in exchange for the payment of premiums.

Additionally, the financial services industry is a major source of employment in the United States. The financial services firms we reviewed for this study, which have 100 or more staff, employed nearly 3 million people in 2004, according to the EEO-1 data. According to the U.S. Bureau of Labor Statistics, employment growth in management and professional positions in the financial services industry was expected to grow at a rate of 1.2 percent annually through 2012.

Changing U.S. Demographic Characteristics and Definition of Diversity Management

According to the U.S. Census Bureau, the U.S. population is becoming more diverse by race and ethnicity.[6] In 2001, Census projected that the non-Hispanic, white share of the U.S. population would fall from 75.7 percent in 1990 to 52.5 percent in 2050, with a similar increase from the minority population during the same period. Census further projected that the largest increases would be in the Hispanic and Asian populations. According to the Census Bureau's *2004 American Community Survey*

[6]See U.S. Census Bureau, *National Population Projections* (January 2001).

results, Hispanics are now the second largest racial/ethic group after whites.[7] The rapid growth of minorities in the Unites States may also influence its economic activities. For example, according to Census, the number of firms owned by minorities and women continues to grow faster than the number of other firms. In particular, a recent Census report based on data from the *2002 Economic Census* stated that, between 1997 and 2002, Hispanics in the United States opened new businesses at a rate three times faster than the national average.[8]

As we stated in a 2005 report, the composition of the U.S. workforce has become increasingly diverse, and many organizations are implementing diversity management initiatives.[9] Diversity management is a process intended to create and maintain a positive work environment that values individuals' similarities and differences, so that all can reach their potential and maximize their contributions to an organization's strategic goals and objectives. On the basis of a literature review and discussions with experts, we identified nine leading diversity management principles: (1) top leadership commitment, (2) diversity as part of an organization's strategic plan, (3) diversity linked to performance, (4) measurement, (5) accountability, (6) succession planning, (7) recruitment, (8) employee involvement, and (9) diversity training.

Diversity in the Financial Services Industry At the Management Level Did Not Change Substantially

EEO-1 data indicate that overall diversity among officials and managers within the financial services industry did not change substantially from 1993 through 2004, but that changes by racial/ethnic group varied. The EEO-1 data also show that certain financial sectors, such as depositories, including commercial banks, are somewhat more diverse at the management level than others, including securities firms. Additionally, EEO-1 data do not show material differences in management-level diversity based on the size of individual firms within the financial services industry.

[7]U.S. Census Bureau, *American Community Survey* (2004).

[8]U.S. Census Bureau, *Survey of Business Owners: Hispanic-Owned Firms: 2002* (March 2006).

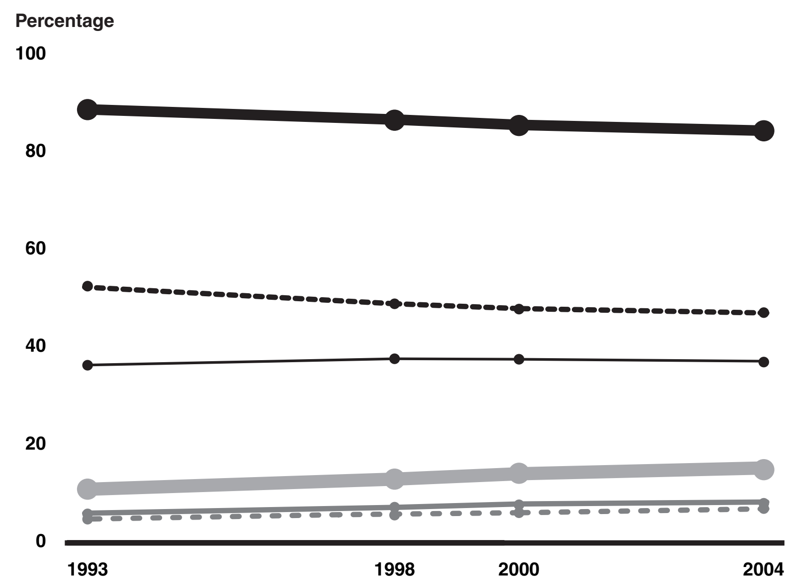
[9]GAO-05-90.

Overview of Management-Level Diversity

Figure 1 shows the representation of minorities and whites at the management level within the financial services industry in 1993, 1998, 2000, and 2004 from EEO-1 data.[10] Management-level representation by minorities increased from 11.1 percent to 15.5 percent during the period, while representation by whites declined correspondingly from 88.9 percent to 84.5 percent. Management-level representation by white men declined from 52.2 percent to 47.2 percent during the period while the percentage of management positions held by white women was largely unchanged at slightly more than one-third.

[10]Our review did not attempt to define appropriate benchmarks for assessing the extent of management level diversity within the financial services industry and, instead, focused on changes in representation over time. While some analyses compare minority or gender representation in job categories or industries with general population statistics, such studies have limitations. For example, such analyses do not account for the educational attainment, age, or experience requirements, among many others, that may be necessary for particular positions, including management-level positions within the financial services industry. Further, we did not identify a feasible means to comprehensively adjust available population or labor force data based on the qualification requirements (e.g., education and experience) for management-level positions in the financial services industry due to the large number of such positions and their related qualification requirements. Such adjustments would have to be made to determine the relevant civilian labor force against which to assess the management-level diversity with the financial services industry. However, the report does discuss some potential management requirements, such as holding a Masters of Business Administration degree.

Figure 1: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level (1993, 1998, 2000, and 2004)



	1993	1998	2000	2004
Total white	**88.9%**	**86.9%**	**85.7%**	**84.5%**
White men	52.2	49.0	48.0	47.2
White women	36.7	37.9	37.8	37.4
Total minority	**11.1%**	**13.1%**	**14.3%**	**15.5%**
Minority men	4.9	5.8	6.3	7.0
Minority women	6.2	7.3	8.0	8.4

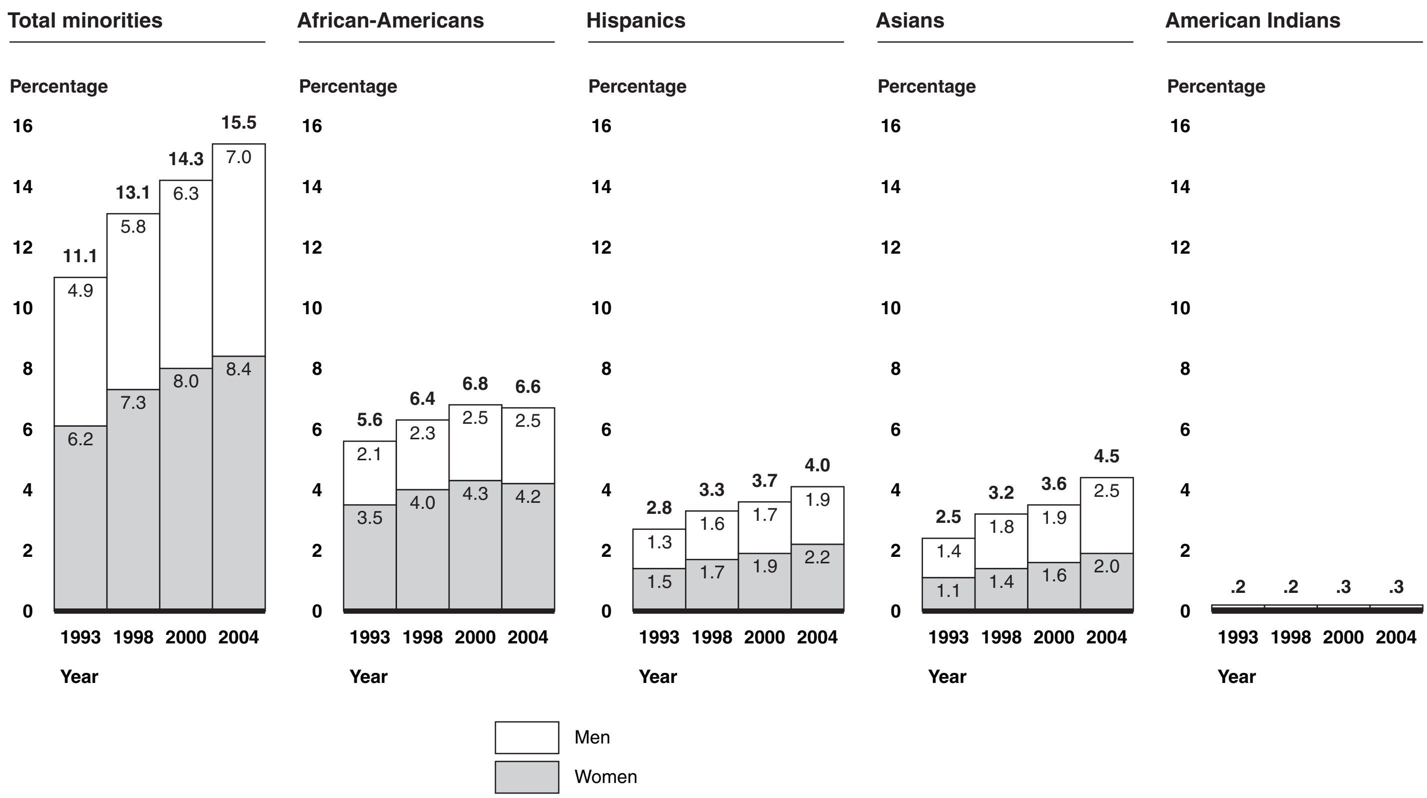
Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Existing EEO-1 data may actually overstate representation levels for minorities and white women in the most senior-level positions because the “officials and managers” category includes lower- and mid-level management positions that may have higher representations of minorities and white women. According to an EEOC official we spoke with, examples for “officials and managers” would range from the Chief Executive Officer from a major investment bank to an Assistant Branch Manager of a small regional bank. A revised EEO-1 form for employers that becomes effective with the 2007 reporting year divides the category of “officials and managers” into two hierarchical sub-categories based on responsibility and influence within the organization: “executive/senior level officials and managers” and “first/mid-level officials.” According to a trade association that commented on the revised EEO-1 form, collecting information about officials and managers in this manner will enable EEO-1 to more accurately report on the discriminatory artificial barriers (the "glass ceiling") that hinder the advancement of minorities and white women to more senior-level positions.

Figure 2 provides EEO-1 data for individual minority groups and illustrates their trends in representation at the management level, which varied by group. African-American representation increased from 5.6 percent in 1993 to 6.8 percent in 2000 but declined to 6.6 percent in 2004. Representation by Hispanics and Asians also increased, with both groups representing 4 percent or more of industry officers and managers by 2004. Representation by American Indians remained well under 1 percent of all management-level positions.

Figure 2: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



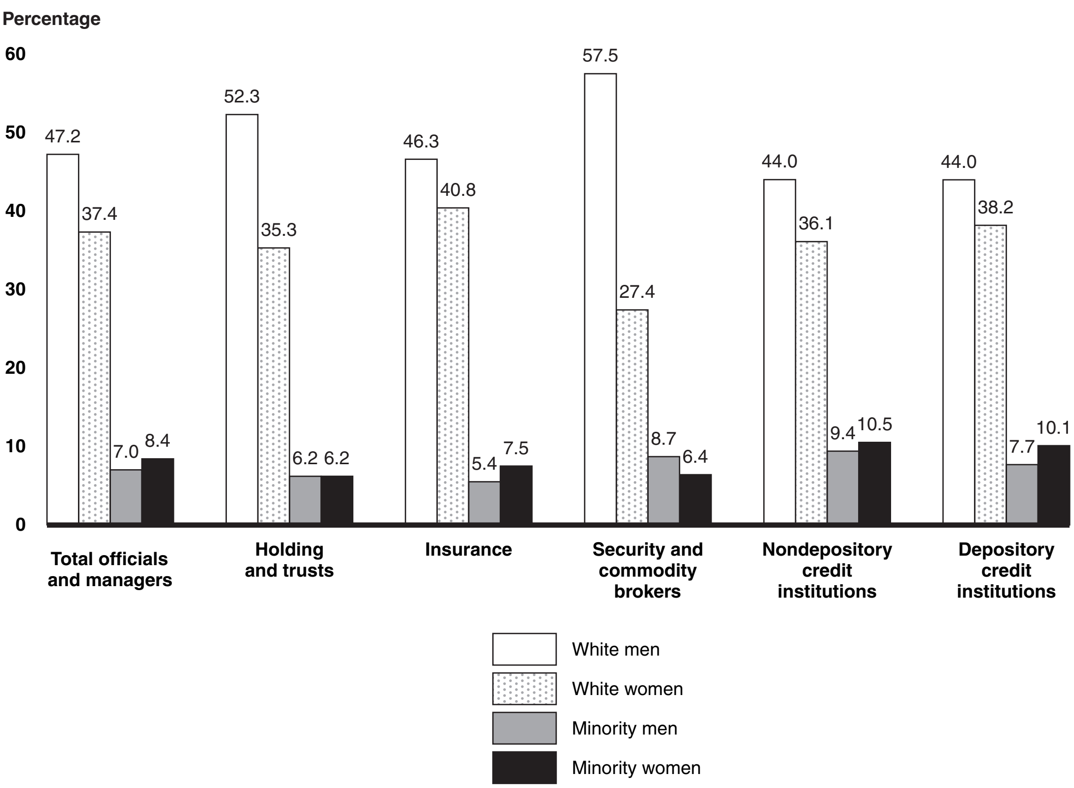
Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

Certain Financial Sectors Are Somewhat More Diverse Than Others, but Diversity Does Not Vary by Firm Size

EEO-1 data show that the depository and nondepository credit sectors, as well as the insurance sector, were somewhat more diverse in specific categories at the management level than the securities and holdings and trust sectors (see fig. 3). For example, in 2004, the percentage of management-level positions held by minorities ranged from a high of 19.9 percent for nondepository credit institutions (e.g., mortgage bankers and brokers) to a low of 12.4 percent for holdings and trusts (e.g., investment companies). The share of positions held by white women varied from a high of 40.8 percent in the insurance sector to a low of 27.4 percent among securities firms. The percentage of white men in management-level positions ranged from a high of 57.5 percent in the securities sector to a low of 44.0 percent in both the depository (e.g., commercial banks) and nondepository credit sectors. Consistent with the EEOC data, a 2005 SIA study we reviewed found limited diversity among key positions in the securities sector.[11]

Figure 3: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Sector (2004)



Source: GAO analysis of EEOC data

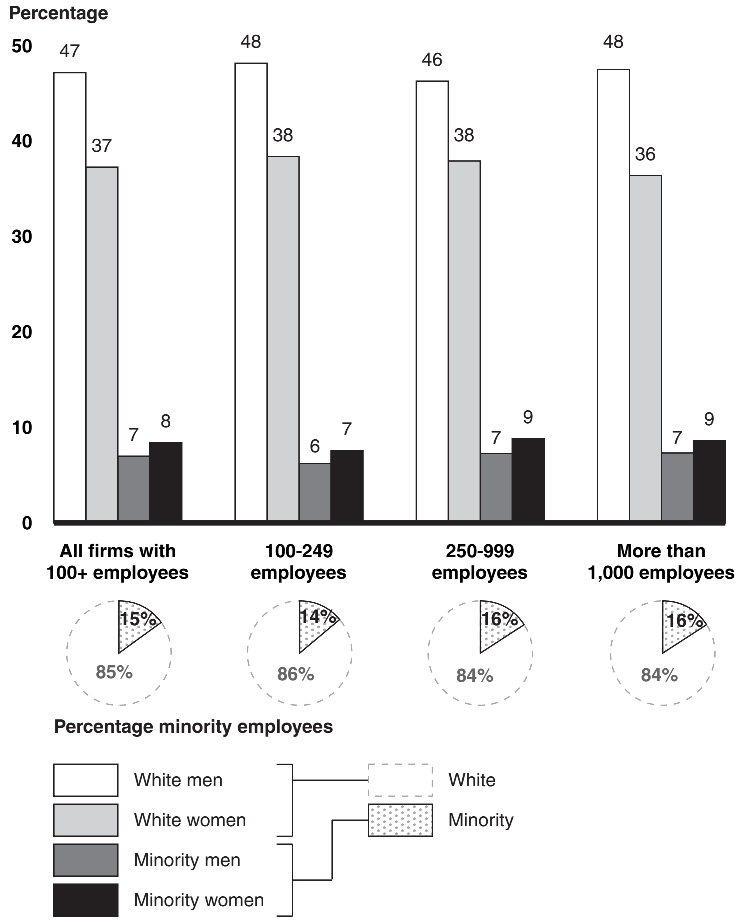
Note: Percentages may not always add to 100 due to rounding.

EEO-1 data also show that the representation of minorities and whites at the management level in financial services firms generally does not vary by firm size (see fig. 4). Specifically, we did not find a material difference in the diversity of those in management-level positions among firms with 100 to 249 employees, 250 to 999 employees, and more than 1,000 employees.

[11]See Securities Industry Association, *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005). The study also found that total representation of minorities and women increased between 2001 and 2005.

There were some variations across financial sectors by size.[12] However, we note that SIA's 2005 study of securities firms did find variation in diversity by firm size for a variety of positions within the securities sector.[13]

Figure 4: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Firm Size (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

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[12]For example, for the holdings and trust sector, the share of positions held by white women are higher in firms with more than 1,000 employees than smaller firms.

[13]SIA (2005). Unlike our analysis, the study of 48 securities firms included positions such as assistants, analysts and associates, mid-level positions, senior-level positions, retail brokers, and institutional sales staff.

Initiatives to Promote Workforce Diversity in the Financial Services Industry Face Challenges

Officials from financial services firms and industry trade associations we contacted stated that the rapid growth of minorities as a percentage of the overall U.S. population and increased global competition have convinced their organizations that workforce diversity is a critical business strategy. Financial firm officials we spoke with said that their top leadership was committed to implementing a variety of workforce diversity programs to help enable their organizations to take advantage of the full range of available talent to fill critical positions and to maintain their firms' competitive position. However, officials from financial services firms and trade associations also described the challenges they faced in implementing these initiatives, such as ongoing difficulties in recruiting and retaining minority candidates and in gaining commitment from employees to support diversity initiatives, especially at the middle management level.

Financial Services Firms Have Implemented a Variety of Diversity Initiatives

Over the past decade, the financial services firms we contacted have implemented a variety of initiatives to increase workforce diversity, including programs designed to recruit and retain minority and women candidates to fill key positions. Some bank officials said that they had developed scholarship and internship programs to encourage minority high school and college students to consider careers in banking with the goal of increasing the diversity of future applicant pools. Some firms have established formal relationships with colleges and Masters of Business Administration (MBA) programs to recruit minority students from these institutions. Some firms and trade organizations have also developed partnerships with groups that represent minority professionals, such as the National Black MBA Association and the National Society of Hispanic MBAs, as well as with local communities to recruit candidates, using events such as conferences and career fairs. Officials from other firms said that the goal of partnerships was to build long-term relationships with professional associations and communities and to increase the visibility of financial services firms among potential employees.

Officials from financial services firms also said that they had developed programs to foster the retention and professional growth of minority and women employees. Specifically, these firms have

- encouraged the establishment of employee networks. For example, a commercial bank official told us that, since 2003, the company had established 22 different employee networks that enabled employees from various backgrounds to meet each other, share ideas, and create informal mentoring opportunities.

- established mentoring programs. For example, an official from another commercial bank told us that the company had a Web-based program that allowed employees of all backgrounds to connect with one another and to find potential mentors.

- instituted diversity training programs. Officials from financial services firms said that these training programs increase employees' sensitivity to and awareness of workforce diversity issues and helped staff deal effectively with colleagues from different backgrounds. One commercial bank we contacted requires its managers to take a 3- to 5-day training course on dealing with a diverse workforce. The training stressed the concept of workforce diversity and provided a forum in which employees spoke about their differences through role-playing modules. The bank has also developed a diversity tool kit and certification program as part of the training.

- established leadership and career development programs. For example, an official from an investment bank told us that the head of the firm would meet with every minority and woman senior executive to discuss his or her career development. For lower-level individuals, the investment bank official said that the organization had created a career development committee to serve as a forum for discussions on career advancement.

Officials from some financial services firms we contacted as well as industry studies noted that that financial services firms' senior managers were involved in diversity initiatives. For example, SIA's 2005 study on workforce diversity in the securities industry found that almost half of the 48 securities firms surveyed had full-time senior managers dedicated to diversity initiatives. According to a report from an executive membership organization, an investment bank had developed a program that involved lower-level employees from diverse backgrounds, along with their senior managers, to develop diversity initiatives. Moreover, officials from a few commercial banks that we interviewed said that the banks had established diversity "councils" of senior leaders to set the vision, strategy, and direction of diversity initiatives. The 2005 SIA study and a few of the firm officials we spoke with also suggested that some companies have instituted programs that link managers' compensation with progress made toward promoting workforce diversity. Officials from one investment bank said that managers of each business unit reported directly to the company's Chief Executive Officer who determined their bonuses in part based on the unit's progress in hiring, promoting, and retaining minority and women employees.

According to some officials from financial services firms, their firms have also developed performance indicators to measure progress in achieving diversity goals. These indicators include workforce representation, turnover, promotion of minority and women employees, and internal employee satisfaction survey responses. An official from a commercial bank said that the company monitored the number of job openings, the number of minority and women candidates who applied for each position, the number of such candidates who interviewed for open positions, and the number hired. In addition, a few officials from financial services firms told us that they had developed additional indicators such as promotion rates for minorities and whites and compensation equity across ranks for minorities and whites. Officials from several financial services firms stated that measuring the results of diversity efforts over time was critical to the credibility of the initiatives and to justifying the investments in the resources such initiatives demanded.

Several Financial Services Trade Organizations Have Promoted Workforce Diversity

Financial services trade organizations from the securities, commercial banking, and insurance sectors that we contacted have been involved in promoting workforce diversity. The following are some examples:

- In 1996 SIA formed a "diversity committee" of senior-level executives from the securities industry to assist SIA's member firms in developing their diversity initiatives and in their efforts to market to diverse customers. This committee has begun a number of initiatives, such as developing diversity management tool kits, conducting industry demographic and diversity management research, and holding conferences. SIA's diversity tool kit provides step-by-step guidelines on establishing diversity initiatives, including identifying ways to recruit and retain diverse candidates, overcoming challenges, measuring the results of diversity initiatives, and creating strategies for transforming a firm's culture. In addition, since 1999 SIA has been conducting an industry-wide diversity survey every 2 years to help its members measure their progress toward increasing workforce diversity. The survey includes aggregated data that measure the number of minority and women employees in the securities industry at various job levels and a profile of securities industry activities designed to increase workforce diversity. In 2005, SIA held its first diversity and human resources conference, which was designed so that human resources and senior-level managers could share best practices and current strategies and trends in human resource management and diversity.

- The American Bankers Association collaborated with the Department of Labor's Office of Federal Contract Compliance Programs in 1997 to identify key issues that banks should consider in recruiting and hiring employees in order to create fair and equal employment opportunities. The issues include managing the application process and selecting candidates in a way that ensures the equal and consistent treatment of all job applications.

- The Independent Insurance Agents and Brokers of America (IIABA) established the IIABA Diversity Task Force in 2002 to promote diversity within the insurance agent community. The task force is charged with fostering a profitable independent agency force that reflects, represents, and capitalizes on the opportunities of the diverse U.S. population. Among its activities, the diversity task force is developing a database of minority insurance agents and minority-owned insurance agencies as a way to help insurance carriers seeking to expand their business with a diverse agent base and potentially reach out to urban areas and underserved markets. According to IIABA, the task force has just completed a tool kit for IIABA state associations, volunteer leadership, and staff. This step-by-step guide advises state associations on how to recruit and retain a diverse membership through their governance, products, service offerings, and association activities. In addition, IIABA participates in a program to educate high school and community college students on careers in insurance, financial services, and risk management and encourages students to pursue careers in the insurance industry.

- The Mortgage Bankers Association (Association) has established plans and programs to increase the diversity of its own leadership, as well as to promote diversity within the Association's member firms in 2005. The Association plans to increase diversity within its leadership ranks by 30 percent by September 2007 and has asked member firms to recommend potential candidates. To help member firms expand the pool of qualified diverse employees in the real estate finance industry, the Association has instituted a scholarship program called "Path to Diversity," which awards between 20 and 30 scholarships per year to minority employees and interns from member firms. Recipients can take courses at CampusMBA, the Association's training center for real estate finance, in order to further their professional growth and development in the mortgage industry.

Several Challenges May Have Affected the Success of Initiatives Designed to Increase Workforce Diversity in the Financial Services Industry

Although financial services firms and trade organizations we contacted have launched diversity initiatives, they cited a variety of challenges that may have limited their success. First, the officials said that the industry faces ongoing challenges in recruiting minority and women candidates even though firms may have established scholarship and internship programs and partnered with professional organizations. According to officials responsible for promoting workforce diversity from several firms, the industry lacks a critical mass of minority and women employees, especially at the senior levels, to serve as role models to attract other minorities to the industry. Officials from an investment bank and a commercial bank also told us that the supply (or "pipeline") of minority and women candidates in line for senior or management-level positions was limited in some geographic areas and that recruiting a diverse talent pool takes time and effort. Officials from an investment bank said that their firm typically required a high degree of specialization in finance for key positions. An official from another investment bank noted that minority candidates with these skills were very much in demand and usually receive multiple job offers.

Available data on minorities enrolled in and graduated from MBA programs provide some support for the contention that there is a limited external pool that could feed the "pipeline" for some management-level positions within the financial services industry, as well as other industries. According to the Department of Labor, many top executives from all industries, including the financial services industry, have a bachelor's degree or higher in business administration. MBA degrees are also typically required for many management development programs, according to an official from a commercial bank and an official from a foundation that provides scholarships to minority MBA students. We obtained data from the Association to Advance Collegiate Schools of Business (AACSB) on the percentage of students enrolled in MBA degree programs in accredited AACSB schools in the United States from year 2000 to 2004.[14] As shown in table 1, minorities accounted for 19 percent of all students enrolled in accredited MBA programs in 2000 and 23 percent in 2004. African-American and Hispanic enrollment in MBA programs was generally stable during that period, and both groups accounted for 6 and 5 percent of enrollment, respectively, in 2004. Asian representation

[14]AACSB, the world's largest accreditation association for business schools, conducts an annual survey called "Business School Questionnaire" of all its accredited schools. Participation in this survey is voluntary. For the year 2004, the most recent year, 92.7 percent of the accredited schools responded to the survey.

increased from 9 percent in 2000 to 11 percent in 2004. Other data indicate that MBA degrees awarded may be lower than the MBA enrollment data reported by AACSB. For example, Graduate Management Admission Council® (GMAC®) data indicate that minorities in its survey sample accounted for 16 percent of MBA graduates in 2004 versus 23 percent minority enrollment during the same year as reported by AACSB.[15] Because financial services firms compete with one another, as well as with companies from other industries to recruit minority MBA graduates, their capacity to increase diversity at the management level may be limited.

Table 1: AACSB Demographic Data of Students Reported Enrolled in MBA Degree Programs at AACSB Accredited Business Schools in the United States by Racial/Ethnic Group (2000-2004)

		Minority				
Year	**White**	**African-American**	**Hispanic**	**Asian**	**American Indian**	**Total minority**
2000	81%	5%	5%	9%	[a]	**19%**
2001	80	6	5	10	[a]	**20**
2002	80	5	5	10	[a]	**20**
2003	78	6	5	11	[a]	**22**
2004	77%	6%	5%	11%	1%	**23%**

Source: GAO analysis of AACSB data.

Note: Percentages may not always add exactly due to rounding.

[a]Less than 1 percent.

Other evidence suggests that the financial services industry may not be fully leveraging its "internal" pipeline of minority and women employees for management-level positions. As shown in figure 5, there are job categories within the financial services industry that generally have more overall workforce diversity than the "officials and managers" category, particularly among minorities. For example, minorities held 22 percent of professional positions as compared with 15 percent of "officials and managers" positions in 2004. See appendix II for more information on the specific number of employees within other job categories, as well as more specific breakouts of various minority groups by sector.

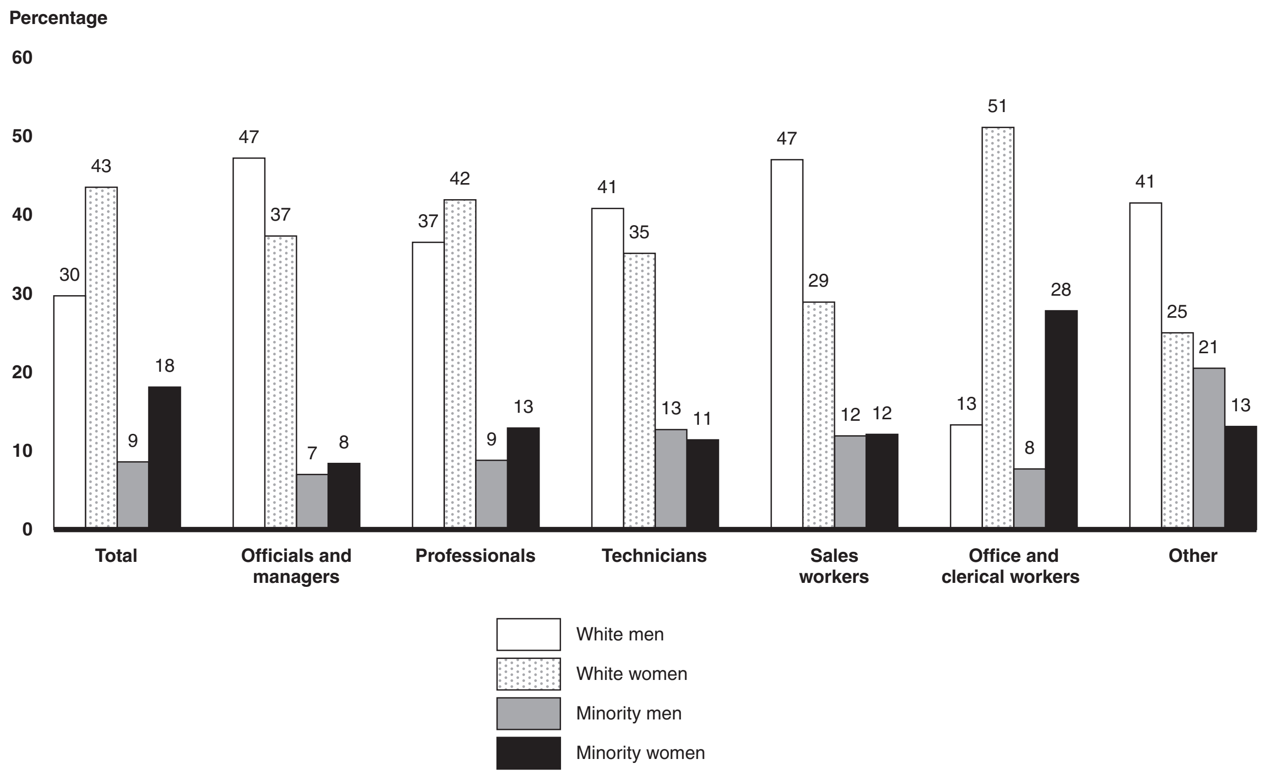
[15]GMAC® has been conducting its "Global MBA Graduate Survey" since 2000. To obtain the demographic data for 2004, GMAC® mailed out 18,504 surveys to graduating MBA students with a response rate of 34 percent.

According to a recent EEOC report, which used 2003 EEO-1 data, the professional category represented a likely pipeline of internal candidates for management-level positions within the industry.[16] Compared with white males, the EEOC study found that the chances of minorities and women (white and minority combined) advancing from the professional category into management-level positions were low. The study also found that the chances of Asians (women and men) advancing into management-level positions from the professional category were particularly low. Although EEOC said there are limitations to its analysis, the agency suggests that the findings could be used as a preliminary screening device designed to detect potential disparities in management-level opportunities for minorities and women.[17]

[16]See EEOC, *Diversity in the Finance Industry* (April 2006). In the study, EEOC analyzed the 2003 EEO-1 data by an analytical technique referred to as odds-ratio analysis to assess the potential chances of minorities and women becoming managers as compared with white men. The analysis assumes the pipeline for "officials and managers" job category generally consists of professionals. However, the study also included "sales workers" as a potential pool of managers in some analyses because in the securities sector, stock brokers might become managers, according to EEOC.

[17]For example, EEOC said that the EEO-1 data do not show how many employees are promoted from one job group to another over time, and so promotion data are not available. Rather, the EEO-1 survey collects information on the number of employees in various job categories at a given point in time. In the absence of promotion data, EEOC views the analysis as a screening tool to identify potential disparities.

Figure 5: EEO-1 Data (Percentage) on Workforce Diversity in the Financial Services Industry by Position, Racial/Ethnic Group, and Gender (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Following are descriptions of the job categories in EEO-1 data from EEOC: (1) "officials and managers": occupations requiring administrative and management personnel who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operations; (2) "professionals": occupations requiring either college graduation or experience of such kind and amount as to provide a comparable background; (3) "technicians": occupations requiring a combination of basic scientific knowledge and manual skill that can be obtained through 2 years of post high school education; (4) "sales workers": occupations engaging wholly or primarily in direct selling; (5) "office and clerical": includes all clerical-type work regardless of level of difficulty, where the activities are predominantly nonmanual; and (6) the category "other" includes craft workers, operatives, laborers, and service workers.

Many officials from financial services firms, industry trade groups, and associations that represent minority professionals agreed that retaining minority and women employees represented one of the biggest challenges to promoting workforce diversity. The officials said that one reason minority and women employees may leave their positions after a short period is that the industry, as described previously, lacks a critical mass of minority women and men, particularly in senior-level positions, to serve as role models. Without a critical mass, the officials said that minority or women employees may lack the personal connections and access to informal networks that are often necessary to navigate an organization's culture and advance their careers. For example, an official from a commercial bank we contacted said he learned from staff interviews that African-Americans believed that they were not considered for promotion as often as others partly because they were excluded from informal employee networks.

While firms may have instituted programs to involve managers in diversity initiatives, some industry officials said that achieving commitment, or "buy-in," can still pose challenges. Other officials said that achieving the commitment of middle managers is particularly important because these managers are often responsible for implementing key aspects of the diversity initiatives, as well as explaining them to their staffs. However, the officials said that middle managers may be focused on other aspects of their responsibilities, such as meeting financial performance targets, rather than the importance of implementing the organization's diversity initiatives. Additionally, the officials said that implementing diversity initiatives represents a considerable cultural and organizational change for many middle managers and employees at all levels. An official from an investment bank told us that the bank has been reaching out to middle managers who oversee minority and woman employees by, for example, instituting an "inclusive manager program." According to the official, the program helps managers examine subtle inequities and different managerial and working styles that may affect their relationships with minority and women employees.

Minority- and Women-Owned Businesses Often Face Difficulties in Obtaining Capital, but Some Financial Services Firms Have Developed Strategies to Assist Them

Studies and reports, as well as interviews we conducted, suggest that minority- and women-owned businesses have faced challenges obtaining capital (primarily bank credit) in conventional financial markets for several business reasons, such as the concentration of these businesses in the service sector and relative lack of a credit history.[18] Other studies suggest that lenders may discriminate, particularly against minority-owned businesses. However, assessing lending discrimination against minority-owned businesses may be complicated by limited data availability. Available research also suggests that factors, including business characteristics, introduce challenges for both minority- and women-owned businesses in obtaining access to equity capital.[19] However, some financial institutions, primarily commercial banks, have recently developed strategies to market their loan products to minority- and women-owned businesses or are offering technical assistance to them.

Research Suggests That Business Characteristics May Affect Minority- and Women-Owned Businesses' Access to Commercial Loans

Reports issued by the MBDA, SBA, and academic researchers, as well as interviews we conducted with commercial banks, minority-owned banks, and trade groups representing minority- and women-owned businesses suggest that minority- and women-owned businesses may face challenges in obtaining commercial bank credit.[20] The reports and interviews typically cite several business characteristics shared by both minority-owned firms and, in most cases, women-owned firms that may compromise their ability to obtain bank credit as follows:

- First, recent MBDA reports found that many minority-owned businesses in the United States are concentrated in retail and service industries, which

[18]A minority-owned business is defined by Census as a business in which a minority owns 51 percent or more of the stock or equity in the business. A woman-owned business is defined by Census as a business in which a woman owns 51 percent or more of the stock or equity in the business.

[19]Equity capital can be raised from several sources including venture capital funds, private stock sales, or issuing stock in public financial markets.

[20]It should be noted that all small businesses may face challenges in obtaining credit due to the risks and costs involved in such lending. See Board of Governors of the Federal Reserve System, *Report to the Congress on the Availability of Credit to Small Businesses* (September 2002).

have relatively low average annual capital expenditures for equipment.[21] Low capital expenditures are an attractive feature for start-up businesses, but with limited assets to pledge as collateral against loans, these businesses often have difficulty obtaining financing. According to the U.S. Census Bureau's *2002 Survey of Business Owners*, approximately 61 percent of minority-owned businesses and approximately 55 percent of women-owned firms operate in the service sectors as compared to about 52 percent of all U.S. firms.[22]

- Second, the Census Bureau's *2002 Survey of Business Owners* indicated that many minority- and women-owned businesses were start-ups or relatively new and, therefore, might not have a history of sound financial performance to present when applying for credit. Some officials from a private research organization and a trade group official we contacted said that banks are reluctant to lend to start-up businesses because of the costs involved in assessing the prospects for such businesses and in monitoring their performance over time.

- Third, the relatively small size and lack of technical experience of some minority-owned businesses may affect their ability to obtain bank credit.[23] For example, an MDBA report stated that minority businesses often need extensive mentoring and technical assistance such as help developing business plans in addition to financing.[24]

[21]U.S. Department of Commerce, Minority Business Development Agency, *Expanding Financing Opportunities for Minority Businesses* (2004). U.S. Department of Commerce, Minority Business Development Agency, *Keys to Minority Entrepreneurial Success, Capital, Education, and Technology* (September 2002). U.S. Department of Commerce, Minority Business Development Agency, *State of Minority Business Enterprises: A Preliminary Overview of the 2002 Survey of Business Owners* (September 2005).

[22]U.S. Department of Commerce, Minority Business Development Agency, *State of Minority Business Enterprises: A Preliminary Overview of the 2002 Survey of Business Owners* (September 2005). U. S. Census Bureau, "2002 Survey of Business Owners, Women-Owned Firms" (Jan. 26, 2006).

[23]U.S. Department of Commerce, Minority Business Development Agency, *Keys to Minority Entrepreneurial Success, Capital, Education, and Technology* (September 2002). U.S. Small Business Administration, Office of Advocacy, *Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance* (September 2003).

[24]U.S. Department of Commerce, Minority Business Development Agency, *Expanding Financing Opportunities for Minority Businesses* (2004).

Other Studies Suggest That Discrimination May Limit Minority-Owned Businesses' Ability to Obtain Commercial Loans

Several other studies suggest that discrimination may also be a reason that minority-owned businesses face challenges obtaining commercial loans. For example, a 2005 SBA report on the small business economy summarized previous studies by researchers reporting on lending discrimination.[25] These previous studies found that minority-owned businesses had a higher probability of having their loans denied and would likely pay higher interest rates than white-owned businesses, even after controlling for differences in creditworthiness and other factors.[26] For example, a study found that given comparable loan applications—by African-American and Hispanic-owned firms and white-owned firms—the applications by the African-American and Hispanic-owned firms were more likely to be denied.[27] Another study found that minorities had higher denial rates even after controlling for personal net worth and homeownership.[28] The SBA report concludes that lending discrimination is likely to discourage would-be minority entrepreneurs and reduce the longevity of minority-owned businesses.

Another 2005 report issued by SBA also found that minority-owned businesses face some restrictions in access to credit.[29] This study investigated possible restricted access to credit for minority- and women-owned businesses by focusing on two types of credit—"relationship loans" (lines of credit) and "transaction loans" (commercial mortgages, equipment loans, and other loans) from commercial banks and nonbanks,

[25]U.S. Small Business Administration, *The Small Business Economy* (Washington, D.C.: 2005).

[26]Blanchard, Lloyd, John Yinger, and Bo Zhao (2005), "Do Credit Market Barriers Exist for Minority and Women Entrepreneurs?" Syracuse University, Center for Policy Research Working Paper No. 74. Blanchflower, David G, P. Levine, and D. Zimmerman (1998). "Discrimination in the Small Business Credit Market", National Bureau of Economic Research. Cavalluzzo, Ken and John Wolken (2002). "Small Business Loan Turndowns, Personal Wealth and Discrimination. Georgetown University." Coleman, Susan (2002). "Characteristics and Borrowing Behavior of Small, Women-Owned Firms: Evidence from the 1998 National Survey of Small Business Finances." University of Hartford.

[27]Blanchard, Lloyd, John Yinger, and Bo Zhao (2005), "Do Credit Market Barriers Exist for Minority and Women Entrepreneurs?" Syracuse University, Center for Policy Research Working Paper No. 74.

[28]Cavalluzzo, Ken and John Wolken (2002). "Small Business Loan Turndowns, Personal Wealth and Discrimination." Georgetown University.

[29]U.S. Small Business Administration (2005). *Availability of Financing to Small Firms Using the Survey of Small Business Finances*. A report for the U.S. Small Business Administration, Washington, D.C.

such as finance companies.[30] The researchers found that minority business owners were more likely to have transaction loans from nonbanks and less likely to have bank loans of any kind. The researchers also found that African-American and Hispanic business owners have a greater probability of having either type of loan denied than white male owners.[31] The researchers did not find evidence suggesting that women or Asian business owners faced loan denial probabilities different from those of firms led by white, male-owned firms.

Although studies have found potential lender discrimination against minority-owned businesses, assessing such discrimination may be complicated by limited data availability. The Federal Reserve's Regulation B, which implements the Equal Credit Opportunity Act, prohibits financial institutions from requiring information on race and gender from applicants for nonmortgage credit products.[32] Although the regulation was implemented to prevent the information from being used to discriminate against underserved groups, some federal financial regulators have stated that removing the prohibition would allow them to better monitor and enforce laws prohibiting discrimination in lending. We note that under the Home Mortgage Disclosure Act (HMDA), lenders are required to collect and report data on racial and gender characteristics of applicants for mortgage loans. Researchers have used HMDA data to assess potential mortgage lending discrimination by financial institutions. In contrast, the studies we reviewed on lending discrimination against minority and small business tend to rely on surveys of small businesses by the Federal Reserve or the Census rather than on lending data obtained directly from financial institutions.

Many Minority- and Women-Owned Businesses May Also Face Difficulties Raising Equity Capital

According to available research, many minority- and women-owned businesses face challenges in raising equity capital—such as, from venture capital firms. For example, one study estimated that only $2 billion of the $95 billion available in the private equity market in 1999 was managed by companies that focused on supplying capital to entrepreneurs from

[30]Relationship loans are defined as a commitment by the lender to a pre-set maximum amount of credit over a certain time period. Transaction loans are injections of cash made after loan approval and used to acquire tangible assets that can serve as loan collateral.

[31]See Small Business Administration (2005).

[32]The Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691-1691f.

traditionally underserved markets, such as minority-owned businesses.[33] Moreover, according to a study by a private research organization, in 2003 only 4 percent of women-owned businesses with $1 million or more in revenue had been funded through private equity capital as compared with 11 percent of male-owned businesses with revenues of $1 million or more.[34]

According to studies and reports by private research organizations, some of the same types of business characteristics that may affect the ability of many minority- and women-owned businesses to obtain bank credit also limit their capacity to raise equity capital.[35] For example, industry reports and industry representatives that we contacted state that venture capitalists place a high priority on the management and technical skills companies; whereas some minority-owned businesses may lack a proven track record of such expertise.

Although venture capital firms may not have traditionally invested in minority-owned businesses, a recent study suggests that firms that do focus on such entities can earn rates of return comparable to those earned on mainstream private equity investments.[36] This study, funded by a private foundation, found that venture capital funds that specialize in investing in minority-owned businesses were relatively profitable compared with a private equity performance index. According to the study, the venture capital funds that specialized in minority-owned businesses invested in a more diverse portfolio of businesses than the typical venture capital fund, which typically focuses on high-tech companies. The study found that investing in broad portfolios helped mitigate the losses associated with the downturn in the high-tech sector for firms that focused on minority-owned businesses.

[33]Milken Institute, *The Minority Business Challenge: Democratizing Capital for Emerging Domestic Markets* (September 2000).

[34]Center for Women's Business Research, *Access to Capital: Where We've Been, Where We're Going* (March 2005).

[35]Center for Women's Business Research, *Access to Capital: Where We've Been, Where We're Going* (March 2005). Brush, C. G.; Carter, N.; Gatewood, E.; Greene P. G.; and Hart, M. M. *Gatekeepers of Venture Growth: A Diana Project Report on the Role and Participation of Women in the Venture Capital Industry* (Oct. 20, 2001).

[36]Bates, Timothy and William Bradford (2003). "Minorities and Venture Capital, A New Wave in American Business." Kauffman Foundation.

Some Commercial Banks Have Developed Programs for Minority- and Women-Owned Businesses

While minority- and women-owned businesses may have traditionally faced challenges in obtaining capital, as noted earlier, Census data indicate that such businesses are forming rapidly. Officials from some financial institutions we contacted, primarily large commercial banks, told us that they are reaching out to minority- and women-owned businesses.

Some commercial banks are marketing their financial products to minority- and women-owned businesses by, for example, printing financial services brochures in various languages and assigning senior executives with diverse backgrounds to serve as the spokespersons for the institutions efforts to reach out to targeted groups (e.g., a bank may designate an Asian executive as the point person for Asian communities). However, officials at a bank and a trade organization told us that the loan products marketed to minority- and women-owned businesses did not differ from those marketed to other businesses and that underwriting standards had not changed.

Bank officials also said that their companies had established partnerships with trade and community organizations for minorities and women to reach out to their businesses. Partnering allows the banks to locate minority- and women-owned businesses and gather information about specific groups of business owners. Bank officials said that such partnerships had been an effective means of increasing their business with these target groups.

Finally, officials from some banks said that they educate potential business clients by providing technical assistance through financial workshops and seminars on various issues such as developing business plans and obtaining commercial bank loans. Other bank officials said that their staffs work with individual minority- or women-owned businesses to provide technical assistance.

Officials from banks with strategies to market to minority- and women-owned businesses said that they faced some challenges in implementing such programs. Many of the bank officials told us that it was time-consuming to train their staff to reach out to minority- and women-owned businesses and provide technical assistance to these potential business customers. In addition, an official from a bank said that Regulation B limited the bank's ability to measure the success of its outreach efforts. The official said that because of Regulation B the bank could only estimate the success of its efforts using estimates of the number of loans it made to minority- and women-owned businesses.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Chair, U.S. Equal Employment Opportunity Commission (EEOC). We received technical comments from EEOC and incorporated their comments into this report as appropriate.

We also requested comments on selected excerpts of a draft of this report from 12 industry trade associations, federal agencies, and organizations that examine access to capital issues. We received technical comments from 4 of the 12 associations, agencies, and organizations and incorporated their comments into this report as appropriate. The remaining eight either informed us that they had "no comments" or did not respond to our request.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Senate Committee on Banking, Housing, and Urban Affairs. We also will send copies to the Chair of EEOC, the Administrator of SBA, and the Secretary of the Department of Commerce, among others, and will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at 202-512-8678 or at williamso@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made major contributions to this report are listed in appendix IV.

Orice M. Williams
Director, Financial Markets and
Community Investment

Appendix I: Objectives, Scope, and Methodology

The objectives of our report were to discuss (1) what the available data show regarding diversity at the management level in the financial services industry, from 1993 through 2004; (2) the types of initiatives that the financial services industry and related organizations have taken to promote workforce diversity and the challenges involved; and (3) the ability of minority and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have recently taken to make capital available to these businesses.

To address objective one, we requested Employer Information Reports (EEO-1) data from the Equal Employment Opportunities Commission (EEOC) for the financial services industry. The EEO-1 data, which is reported annually generally by firms with 100 or more employees, provides information on race/ethnicity and gender for various occupations, within various industries, including financial services.[1] We used the racial/ethnic groups specified by EEOC; whites, not of Hispanic origin (whites); Asians or Pacific Islanders (Asians); Blacks, not of Hispanic origin (African-Americans); Hispanics or Latinos (Hispanics); and American Indians or Alaskan Natives (American Indians) for our analysis. The EEO-1 occupations are officials and managers, professional, technicians, sales workers, clerical workers, and others. The other category includes laborers, craft workers, operatives, and service workers. We defined the financial services industry to include the following five sectors: depository credit institutions (including commercial banks), holdings and trusts (including investment companies), non-depository credit institutions (such as mortgage bankers), securities firms, and insurance (carriers and agents). We also requested and analyzed EEO-1 data for the accounting industry.

We chose to use the EEO-1 database because it is was designed to provide information on representation by a variety of groups within a range of occupations and industries, covered many employers, and had been collected in a standardized fashion for many years. Although the EEO-1 data generally do not capture information from small businesses with less than 100 employees, we believe, due to their annual mandatory reporting, they allow us to characterize the financial services industry of firms with 100 or more employees. We also corroborated the EEO-1 data with other available studies, particularly a 2005 study by the Securities Industry

[1] Federal contractors with 50 or more employees are also required to report EEO-1 data. However, we did not include these firms in our analysis. See 29 C.F.R. Part 1602, Subpart B.

Association on diversity within the securities sector.[2] We did consider other sources of data besides EEO-1, but chose not to use them for a variety of reasons including their being more limited or less current.[3]

We requested and analyzed the EEO-1 data, focusing on the “officials and managers” category, for the years 1993, 1998, 2000, and 2004 for financial services firms having 100 or more employees. We compared that data from the selected years to determine how the composition of management-level staff had changed since 1993. We also analyzed the data based on the number of employees in the firm or firm size. The four firm size categories we used were 100 or more employees, 100-249 employees, 250-999 employees, and 1,000 or more employees. We also requested EEO-1 data for the accounting industry for 2004, and therefore did not perform a trend analysis. The scope of our work did not include developing appropriate benchmarks to assess the extent of workforce diversity within the financial services industry.

EEOC collects EEO-1 data from companies in a manner that allowed us to specify our data request and analysis by financial sector (e.g., commercial banking or securities). EEOC assigns each firm a code based on its primary activity (referred to as the North American Industry Classification System [NAICS] or the Standard Industrial Classification [SIC]). For example, a commercial bank will have a specific code denoting commercial banking, whereas a securities firm would have its own securities code. In addition, EEOC assigns codes to companies and their subsidiaries based on their primary line of business. For example, a commercial bank with an insurance subsidiary would have a separate code for that subsidiary. By requesting the EEO-1 data by the relevant codes, we were able to separate the different financial services businesses within a firm and then aggregate the data by sector. Although the NAICS

[2]See Securities Industry Association, *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005).

[3]We considered using data from Census’ Current Population Survey (CPS), Public Use Microdata Sample (PUMS), Special EEO Tabulation File, and the American Community Survey (ACS). The CPS is reported by individuals and includes smaller employers, and the PUMS is reported by households; however due to small sample sizes, reliable estimates to specific minority groups could not be derived. The Special EEO Tabulation File’s most recent data are based on the 2000 census and thus were more dated than other data sources. The ACS only has data since 2002 and therefore did not allow us to show shifts over a large span of time.

replaced the SIC in 1997, EEOC staff are to assign both codes to each firm that existed prior to 2002 to ensure consistency.[4]

We conducted a limited analysis to assess the reliability of the EEO-1 data. To do so, we interviewed EEOC officials regarding how the data are collected and verified as well as to identify potential data limitations. EEOC has conducted a series of data reliability analyses for EEO-1 data to verify the consistency of the data over time. For example, EEOC reviewed the 2003 EEO-1 data for its report on diversity in the financial services industry.[5] As part of this review, EEOC deleted 81 of the 13,000 establishments because the data for the deleted establishments were not consistent year to year. The EEOC staff do not verify the EEO-1 data, which are self-reported by firms, but they do review the trends of the data submitted. For example, EEOC staff look for major fluctuations in job classifications within an industry. On the basis of this analysis, we concluded that the EEO-1 data are sufficiently reliable for our purposes.

To address objective two, we interviewed a range of financial services firms, including commercial banks and securities firms. We also interviewed representatives from a large accounting firm to discuss workforce diversity in the accounting industry. We chose these firms for a variety of reasons including whether they have ever received public recognition of their diversity programs or on the basis of recommendations from industry officials. We also interviewed representatives from industry trade organizations such as the American Bankers Association, the Securities Industry Association, the Independent Insurance Agents and Brokers of America, the American Institute of Certified Public Accountants, and Catalyst, which is a private research firm. We reviewed the trade organizations' available studies and reports to document the state of diversity within the different sectors of the financial services industry. In addition, we reviewed publicly available data on firms' programs by searching their Web sites. We also interviewed representatives of federal agencies such as the Bureau of Labor Statistics of the Department of Labor, the Minority Business Development Agency of the Department of Commerce, the Small Business Administration, and federal bank regulators. Additionally, we collected and analyzed demographic data on enrollment in accredited Masters of Business

[4]EEOC implemented the NAICS in 2002.

[5]Equal Employment Opportunity Commission, *Diversity in the Finance Industry* (April 2006).

Administration (MBA) programs from Association to Advance Collegiate Schools of Business and MBA graduation data from the Graduate Management Admissions Council®.

To address objective three, we reviewed 20 available studies and reports from federal agencies, such as the Small Business Administration and the Minority Business Development Agency, and academic studies on the ability of minority- and women-owned businesses to access credit. We also interviewed officials from banks, investment firms and private equity/venture capital firms to discuss their initiatives to provide capital to minority- and women-owned businesses.[6] Moreover, we interviewed officials from organizations that represent minority- and women-owned businesses such as the U.S. Hispanic Chamber of Commerce, the Pan Asian American Chamber of Commerce, National Black Chamber of Commerce, and the National Association of Women Business Owners. In addition, we interviewed officials from organizations that examine access to capital issues, such as the Milken Institute and the Kauffman Foundation.

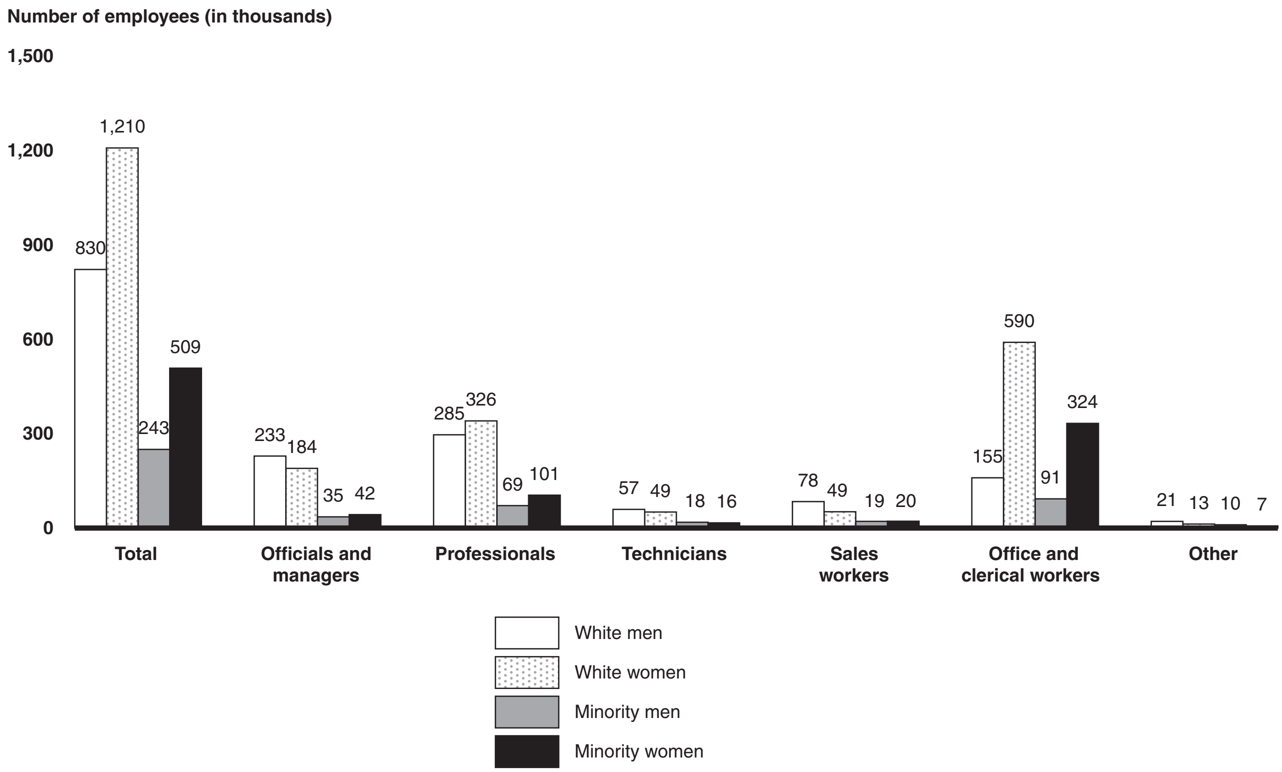
We conducted our work from July 2005 to May 2006 in Washington, D.C., and New York City and in accordance with generally accepted government auditing standards.

[6]Banks included national, community, minority-owned banks, and one women-owned bank. We also selected the firms based on our interviews with organizations that represent minority- and women-owned businesses. We were seeking firms that may have initiatives to assist minority- and women-owned businesses in obtaining capital.

Appendix II: Overall Statistics on Workforce Diversity in the Financial Services Industry

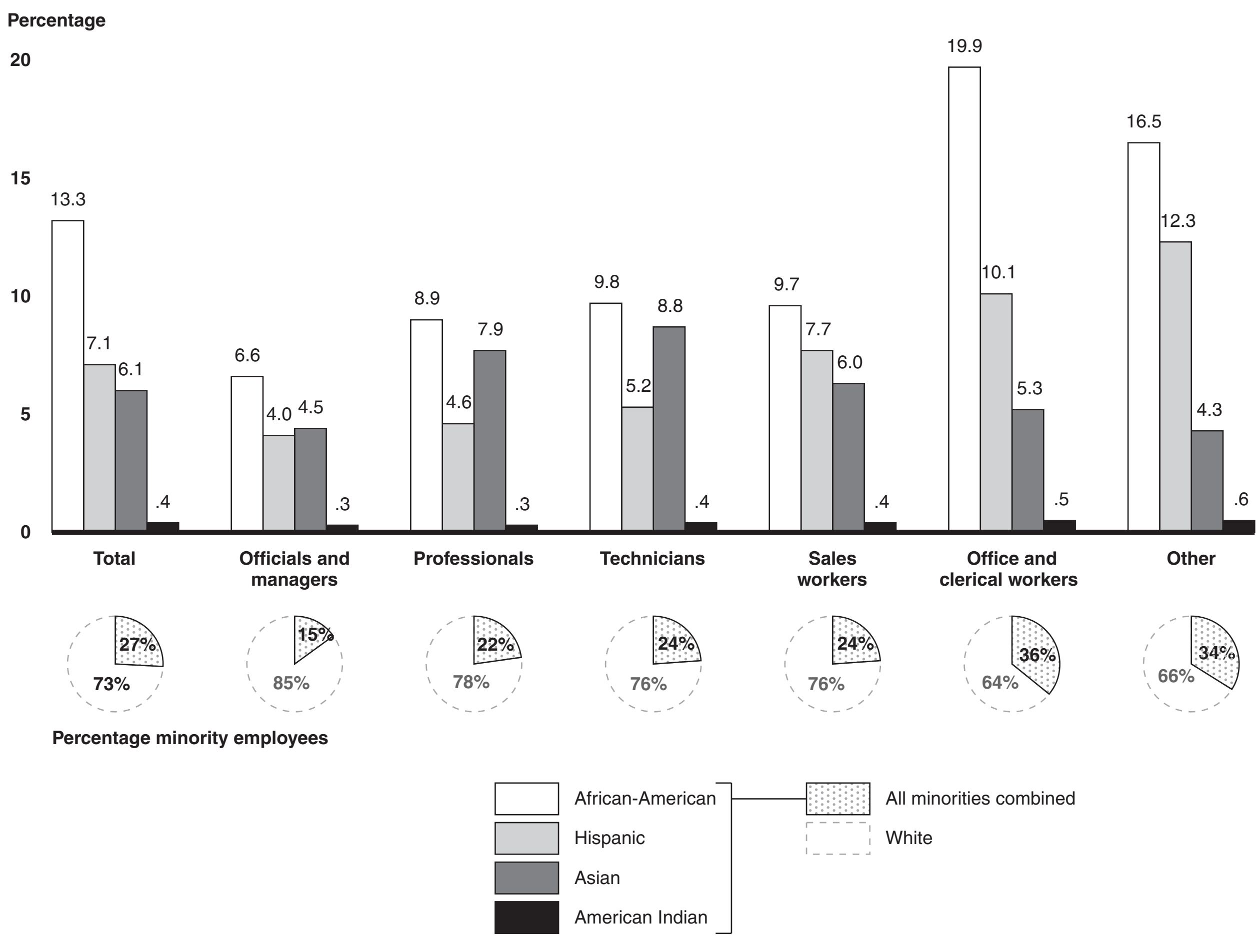
This appendix provides Employer Information Report (EEO-1) data on the number of employees within the financial services industry by position (see fig. 6) and more specific breakouts of the various racial/ethnic groups by position (see fig. 7).

Figure 6: EEO-1 Data (Number of Employees) on Workforce Diversity in the Financial Services Industry by Position, Racial/Ethnic Group, and Gender (2004)



Source: GAO analysis of EEOC data.

Figure 7: EEO-1 Data on Workforce Diversity in the Financial Services Industry by Position and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

Appendix III: Diversity in Key Positions in the Accounting Industry

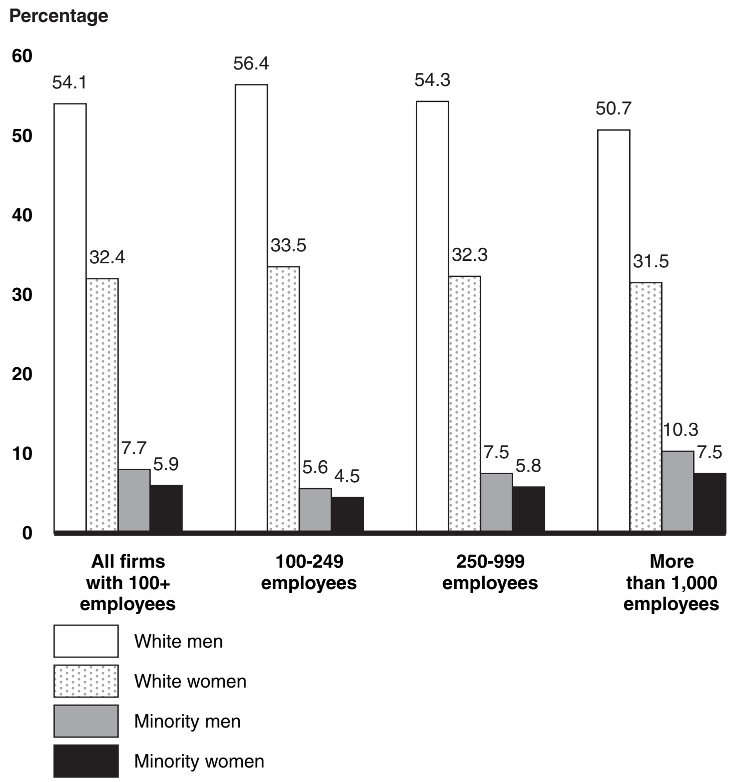
This appendix discusses workforce diversity of management-level positions in the accounting industry for 2004 as depicted by Employer Information Report (EEO-1) data. Additionally, it describes the findings of a report by the American Institute of Certified Public Accountants (AICPA) that assessed diversity within the accounting industry in a broad range of positions. Finally, the appendix summarizes efforts by AICPA and a large accounting firm to increase diversity in key positions.

Minorities Account for 14 Percent of Management-Level Positions in the Accounting Industry

According to the 2004 EEO-1 data, minorities held 13.5 percent (5.9 percent for minority women and 7.7 percent for minority men) of all "officials and managers" positions, white women held 32.4 percent while white men held 54.1 percent of all official and manager positions in the accounting industry (see fig. 8).[1] Contrary to the financial services sector where diversity among firms generally did not vary by firm size, EEO-1 data also show that larger accounting firms are in general more diverse than smaller firms. For example, minorities accounted for 17.8 percent of all officials and managers in accounting firms with 1,000 or more employees. For firms with 100 to 249 employees, minority representation for officials and managers accounted for 10.1 percent.

[1]Percentages may not always add exactly due to rounding.

Figure 8: EEO-1 Data on Workforce Diversity in the Accounting Industry at the Management Level by Firm Size, Gender, and Racial/Ethnic Group, and Gender (2004)

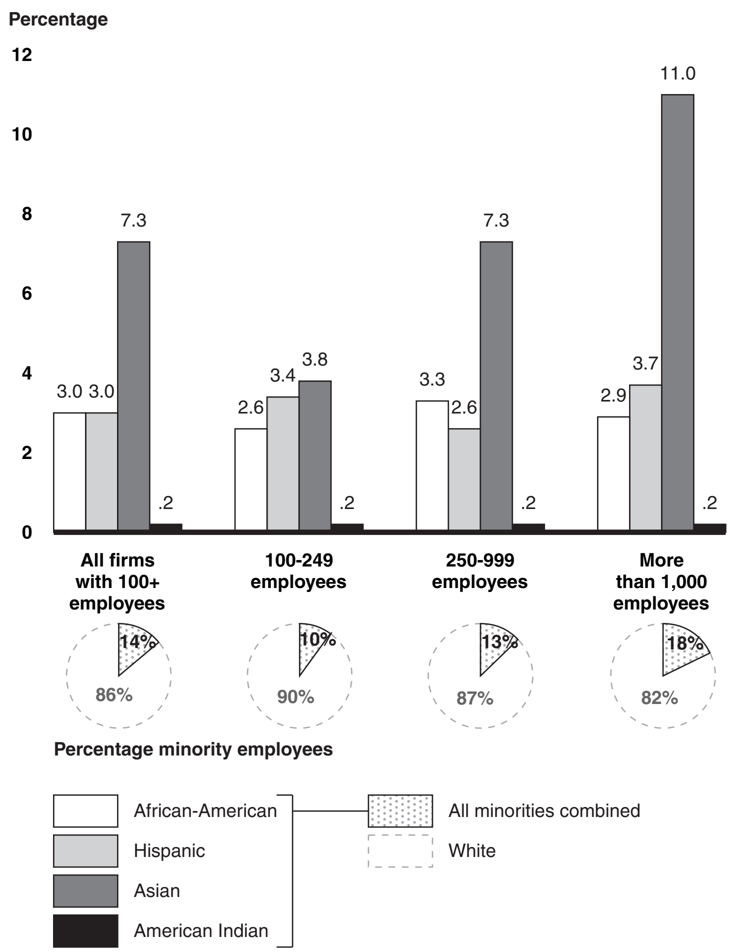


Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Within the minority category in the accounting industry, EEO-1 2004 data show that Asians held 7.3 percent of all management-level positions, which is more than the representation of African-Americans (3.0 percent) and Hispanics (3.0 percent) combined (see fig. 9).

Figure 9: EEO-1 Data on Workforce Diversity in the Accounting Industry at the Management Level by Firm Size and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

AICPA Study Identified a Lack of Diversity in the Accounting Industry

AICPA's 2005 demographic study showed that, in 2004, minorities represented 10 percent of all professional staff, 8 percent of all certified public accountants (CPA), and 5 percent of all partners/owners employed by CPA firms.[2] Correspondingly, the representation of whites among

[2]AICPA, *The Supply of Accounting Graduates And the Demand for Public Accounting Recruits – 2005 For Academic Year 2003-2004* (2005). AICPA surveyed 5,821 certified public accounting firms, and 1,423 responded.

professional staff, CPAs, and the partner/owner level at accounting firms were all at 89 percent or above (see table 2).[3] In addition, consistent to the 2004 EEO-1 data for the accounting industry, the AICPA study found that the largest CPA firms were, in general, the most ethnically and racially diverse (see table 3).[4]

Table 2: Workforce Representation at the Professional, CPA and Partner/Owner Levels by Racial/Ethnic Group (2005)

Gender and racial/ethnic group	Professional staff	CPA	Partner/owner
Minority	10%	8%	5%
African-American	2	1	1
Hispanic	3	3	2
Asian/Pacific Islander	5	4	2
American Indian	[a]	[a]	[a]
White	89	92	95
Other	1%	[a]	[a]

Source: GAO analysis of AICPA data.

Note: Percentages may not always add to 100 due to rounding. AICPA data are from The Supply of Accounting Graduates and the Demand for Public Accounting Recruits (2005).

[a]Less than 1 percent.

[3]AICPA's study did not report representation levels of whites and minorities by gender.

[4]The largest firms are defined as those with more than 200 members.

Table 3: Workforce Representation at the Professional Level by Racial/Ethnic Group and Firm Size

Gender and racial/ethnic group	More than 200 employees	50-200 employees	10-49 employees	Fewer than 10 employees	All CPA firms
Minority	18%	8%	8%	10%	10%
• African-American	3	2	2	2	2
• Hispanic	4	2	3	4	3
• Asian/Pacific Islander	11	4	3	4	5
• American Indian	[a]	[a]	[a]	[a]	[a]
• Other	[a]	1	[a]	1	1
White	82	91	92	89	89
Other	[a]	1%	[a]	1%	1%

Source: GAO analysis of AICPA data.

Note: Percentages may not always add to 100 due to rounding. AICPA data is from *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits* (2005).

[a]Less than 1 percent.

According to officials from AICPA and a large accounting firm we spoke with, one reason for the lack of diversity in key positions in the industry is that relatively few racial/ethnic minorities take the CPA exam and thus relatively few minorities are CPAs. According to the 2004 congressional testimony of an accounting professor, passing the CPA exam is critical for achieving senior management-level positions in the accounting industry.[5]

Efforts to Enhance Accounting Industry Diversity

According to officials we spoke with from AICPA and an accounting firm, similar to the financial services industry, the accounting industry had also initiated programs to promote the diversity of its workforce. An official from the large accounting firm we spoke with told us that his firm's top management is committed to workforce diversity and has implemented a minority leadership development program, which ensures that minorities and women become eligible for and are recommended for progressively

[5]*Diversity in the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, Hearing before the Subcommittee On Oversight and Investigations of the House Committee on Financial Services, 108th Cong (2004).

more senior positions. As part of the commitment to workforce diversity, the firm also has a mentoring program, which pairs current partners with senior management-level minority and women staff to help them achieve partnership status. In addition, the firm also requires middle- and high-level managers to undergo diversity training to encourage an open dialogue around racial-ethnic and gender issues. An AICPA official said the organization formed a minority initiatives committee to promote workforce diversity with a number of initiatives to increase the number of minority accounting degree holders, such as scholarships for minority accounting students and accounting faculty development programs. AICPA also formed partnerships with several national minority accounting organizations such as the National Association of Black Accountants and the Association of Latino Professionals in Finance and Accounting to develop new programs to foster diversity within the workplace and the community.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the individual named above, Wesley M. Phillips, Assistant Director; Emily Chalmers; William Chatlos; Kimberly Cutright; Simin Ho; Marc Molino; Robert Pollard; LaSonya Roberts; and Bethany Widick made key contributions to this report.

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